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December 16, 2003

Hon. Marlene H. Dortch
Secretary
Federal Communications Commission
The Portals II
445 12 Street, SW
Washington, D.C. 20554

Re: Comments of the New York State Department of Public Service in the Matter of the Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers; WC Docket No. 03-173, FCC 03-224

Dear Secretary Dortch:

For filing, attached please find the Comments of the New York State Department of Public Service in the above-referenced matter in response to the Commission's Notice of Proposed Rulemaking, released September 15, 2003 and published in the Federal Register on October 17, 2003.

Sincerely,

Kathleen H. Burgess
Assistant Counsel

Att.

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.

In the Matter of	)	
	)	WC Docket No. 03-173
Review of the Commission's Rules Regarding the Pricing	)	FCC 03-224
of Unbundled Network Elements and the Resale of Service	)	
by Incumbent Local Exchange Carriers		

COMMENTS OF NEW YORK STATE
DEPARTMENT OF PUBLIC SERVICE

Dawn Jablonski Ryman
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of the State of New York
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Dated: December 15, 2003
Albany, New York

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2. Case 98-C-1357 – Supplemental Recommended Decision on Pricing of Ducts and Conduits by Administrative Law Judge Joel A. Linsider (issued June 18, 2001)

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20054

In the Matter of

Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers	))))	WC Docket No. 03-173 FCC 03-224

Introduction and Summary

The New York State Department of Public Service (NYDPS) submits these comments in response to the Federal Communications Commission's (Commission) Notice of Proposed Rulemaking (NPRM) published in the October 17, 2003 Federal Register. The NPRM reexamines the rules applicable to pricing of Unbundled Network Elements (UNEs) and resold telecommunications services that incumbent local exchange carriers (ILECs) must make available to competitive local exchange carriers (CLECs) pursuant to the Telecommunications Act of 1996 (the Act). The Commission established the pricing methodology for UNEs known as Total Element Long Run Incremental Cost (TELRIC),[1] and this NPRM is the first reexamination of these rules.

[1] Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, 11 FCC Rcd 15499 (1996) (Local Competition Order), aff'd in part and vacated in part sub. nom. Comp. Tel. Assoc. v. FCC,117 F.3d 1068 (8th Cir. 1997) and Iowa Utilities Bd. v. FCC, 120 F.3d 753 (8th Cir. 1997), aff'd in part and remanded, AT&T v. Iowa Utilities Bd., 525 US 366 (1999); on remand Iowa Utilities Bd. v. FCC, 219 F.3d 744 (8th Cir. 2000), reversed in part sub nom. Verizon Communications, Inc. v. FCC, 535 US 467 (2002).

The NYDPS supports the Commission's decision to reexamine whether the current pricing rules are achieving one of the central purposes of the Act, which is to promote facilities-based competition.[2] We agree that the pricing rules must produce rates that are just, reasonable and non-discriminatory, are consistent with the Act's goal of promoting competition, and do not create incentives for carriers to avoid investment in facilities.[3] To this end, the Commission's goals for UNE pricing are appropriate. In support of these goals, the NYDPS agrees with the Commission's conclusion that TELRIC should incorporate "real world" attributes of the ILEC's network. Likewise, factors that are reflected in TELRIC rates, such as depreciation and cost of capital, should be calculated in a manner that state commissions determine reflects the actual risks that an ILEC faces in a particular market. Further, the non-recurring charges that an ILEC charges to recover the costs in processing an order for a competitor should also reflect the same network construct as used to establish recurring charges.

However, state commissions should continue to have the flexibility to set UNE prices in a manner that sends efficient entry and investment signals to all competitors while providing ILECs a reasonable opportunity to recover the forward-looking costs of providing UNEs. The Commission should not require that states conduct new proceedings within nine months but, rather, state commissions should have the flexibility to determine whether their UNE prices are consistent with the Commission’s methodology and when they will initiate new cost proceedings.

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[2] NPRM at ¶ 3.

[3] NPRM at ¶ 3.

Finally, attached to these comments are the New York Public Service Commission (NYPSC) Order and Recommended Decision from the most recent examination of UNE pricing in New York, which may be helpful in answering more specific questions contained in the NPRM.[4] Summary responses to the various specific questions asked in the NPRM that are not addressed in the text of these comments, with specific references to the applicable portion of the Order and Recommended Decision, are also provided in the Appendix.

I. Background of NYPSC Proceedings

The NYPSC undertook its first TELRIC costing examination after the inception of the Act.[5] This proceeding, the First Network Elements Proceeding, consisted of four phases that examined resale as well as the pricing of UNEs and other wholesale services. Subsequently, in September 1998, the NYPSC announced its intention to undertake a comprehensive reexamination of the rates established in the First Network Elements Proceeding.[6] Among other reasons, the NYPSC determined that costs change continually and, moreover, the continuing evolution of the telecommunications industry, including the demand for additional lines and Internet usage, warranted a Second Network Elements Proceeding to reexamine the assumptions underlying the determinations in the First Network Elements Proceeding.

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[4] Case 98-C-1357, Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements, Order on Unbundled Network Elements (issued January 28, 2002) (hereinafter referred to as "Order"); Recommended Decision on Module 3 Issues by Administrative Law Judge Joel A. Linsider (issued May 16, 2001) (hereinafter referred to as "Recommended Decision").

[5] Case 98-C-1357. The procedural history of this case, which includes the dates of all related NYPSC orders for the First and Second Network Elements Proceedings, is set forth in the Order, pp 1 – 8.

[6] Case 98-C-1357, Order Denying Motion to Reopen Phase 1 and Instituting New Proceeding (issued September 30, 1998).

The Second Network Elements Proceeding consisted of three modules: Directory Database (DDB); Collocation; and UNEs generally. Following a comprehensive review of the costs of Verizon's UNEs, the NYPSC issued its Order on Unbundled Network Element Rates, which are effective in New York today. [7]

II. The Commission's Goals for UNE Pricing Provide the Appropriate Incentives

The Commission determined in the Local Competition Order that there are two objectives for employing UNE pricing. First, the Commission stated that "UNE prices should be set in a manner that sends efficient entry and investment signals to all competitors."[8] Second, these prices "should provide incumbent LECs an opportunity to recover the forward-looking costs of providing UNEs."[9] The Commission is now seeking comment on whether these two goals ought to remain the primary goals of the UNE pricing rules.

We agree that these goals should remain the primary goals. There is, of course, a potential tension between encouraging efficient entry for competitors while at the same time providing ILECs with the ability to recover their forward-looking costs. The Commission's goals cannot be achieved if UNE prices are so low that CLECs would have little incentive to invest in their own facilities and ILECs cannot recover their economic costs. On the other hand, if UNE

[7] Case 01-C-1945, Verizon New York, Inc. – Cost Recovery and Future Regulatory Framework (hereinafter referred to as "Verizon Incentive Plan Order"), Order Instituting Verizon Incentive Plan (issued February 27, 2002). In the Verizon Incentive Plan Order, NYPSC stated that the rates for UNEs are those set in the Order in Case 98-C-1357 with the sole exception being the rate of the non-recurring charge for two-wire and four-wire hotcuts.

[8] NPRM at ¶ 38, citing Local Competition Order at 15844, ¶ 672.

[9] NPRM at ¶ 38, citing 47 USC Section 252(d)(1). The Commission notes that "UNE prices need not, however, provide for a full recovery of historical costs. Local Competition Order, 11 FCC Rcd at 15857-58, ¶. 705 ("Neither a methodology that establishes prices for interconnection and access to network elements directly in the costs reflected in the regulated books of account, nor a price based on forward-looking costs plus an additional amount reflecting embedded costs, would be consistent with the approach we are adopting.")

rates are set too high they could serve as barriers for new entrants. TELRIC was designed as a means for reconciling these two goals, and the Commission ought to maintain the same objectives as it reexamines UNE pricing principles.

III. UNE Rates Should Reflect "Real World" Attributes

The Commission states that one of the most controversial aspects of TELRIC is the assumption that the cost of a UNE should be determined based on the cost of deploying the most efficient technology throughout its service area. The question presented is: "If a single carrier were to build an efficient network today to serve all customer locations within a particular geographic area, taking as given only the locations of existing wire centers, how much would it cost to construct and maintain the network?"[10]

The Commission now posits that the TELRIC rules "should more closely account for the real-world attributes of routing and topography of an incumbent's network in the development of forward-looking costs."[11] In its view, this proposed pricing methodology, while forward-looking, "must be more representative of the real world and should not be based on the totally hypothetical cost of a most-efficient provider building a network from scratch."[12] The Commission seeks comment on whether this approach would address claims that the current TELRIC rules distort a competitor's decision whether to invest in new facilities or lease an incumbent's facilities.

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[10] NPRM at ¶ 49.

[11] NPRM at ¶ 52.

[12] NPRM at ¶ 53.

The NYDPS agrees that UNE rates should more closely account for the real-world attributes of an incumbent's network in the development of forward-looking costs if they are to achieve a just and reasonable result. In a competitive market, technology upgrades are not instantaneous, but evolutionary, and smaller competitive markets do not enjoy the same economies of scale and scope as do a single, larger network. Consequently, in the Second Network Elements proceeding, the NYPSC adopted Verizon's cost model, which, in large part, relied on historical data and forward looking estimates by engineers. The NYPSC further adjusted Verizon's cost model to reflect TELRIC assumptions. This model more closely accounted for the actual network technology and the practices Verizon currently engages in. The AT&T and MCI model was rejected because its assumptions and algorithms held a "tenuous link to the real world."[13]

Costs based on real-world attributes would account for dynamic inefficiencies inherent in the provisioning of services in a real network, which would otherwise be obviated in a purely hypothetical network. Reflecting inefficiencies into the TELRIC model makes it more likely that CLECs will invest in facilities if they can build or buy their own facilities for less than it would cost them to lease these facilities from the ILEC. Basing the costs on a hypothetical construct may likewise discourage ILECs from investing in facilities if the end result is that CLECs will continue to lease from them at less than it costs ILECs to build new facilities. On the other hand, accounting for the real-world attributes could encourage ILECs to become more efficient in order to meet competitive threats from CLEC facilities-based carriers. The level of competition

[13] Recommended Decision, p. 34.

in New York[14] validates the NYPSC's consideration of real-world attributes of the network in setting UNE rates.

IV. Depreciation Practices Should Reflect A Competitive Environment

In the Local Competition Order, the Commission concluded that depreciation schedules should take into account expected decline in the value of goods.[15] In the Triennial Review Order, the Commission declined to mandate any particular set of economic lives, but clarified that a carrier could accelerate recovery of the initial outlay of an asset to reflect anticipated decline in value.[16] In this rulemaking, the Commission states that it has been reluctant to rely solely on financial reporting lives because Generally Accepted Accounting Principles (GAAP) might permit companies to adopt depreciation methods that result in excessive depreciation expense.[17] The Commission queries whether this reluctance is warranted and seeks comment on how financial reporting lives are calculated and whether they accurately represent the anticipated economic life of assets.

The Commission should not adopt a specific rule; it should continue to rely on state commissions to determine whether the use of the depreciation lives used for GAAP purposes are appropriate for setting TELRIC rates. The NYPSC recently embraced the concept for intrastate ratemaking purposes of aligning Verizon's regulatory financial figures and depreciation reserves

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[14] For the year ending December 31, 2002, CLECs served 3,368,415 lines, which represents a 24% share of the market.

[15] NPRM at ¶ 93, citing Local Competition Order at 15849, ¶ 686.

[16] NPRM at ¶ 93, citing Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, Report and Order and Order on Remand and Future Notice of Proposed Rulemaking, ((Docket No. 01-338, Federal Communications Commission 03-361 released August 21, 2003 (Triennial Review Order) at ¶¶ 689-691.

[17] NPRM at ¶ 98.

with those used in its filings with the Securities and Exchange Commission (SEC), which employ GAAP to set forth Verizon's financial condition and operations.[18] As ILECs, such as Verizon, operate in an increasingly competitive environment, regulatory accounting should likewise move in a similar fashion to the use of GAAP. Just as the Commission has expressed its reluctance to move to GAAP, we, too, would need to carefully evaluate the level of real competition in New York and use the company's GAAP depreciation lives as one of the factors which could be used to inform our rate-setting process. Therefore, consistent with the view that UNE rates should be based upon real world attributes, the Commission should not adopt a one-size fits all policy. State commissions should have the flexibility to determine whether GAAP depreciation lives better reflect the treatment of depreciation in the competitive market or whether these lives should be but one factor in determining the appropriate UNE rates.

V. The Cost of Capital Should Reflect the Risks of the Real World

The Commission stated in the Local Competition Order that the "currently authorized rate of return at the federal or state level is a reasonable starting point" for determining the cost of capital.[19] The authorized rate of return at that time was 11.25%, but the Commission noted that states could "adjust the cost of capital if a party demonstrates to a state commission that either a higher or lower level of cost of capital is warranted."[20] In the Triennial Review Order, the Commission clarified that a TELRIC-based cost of capital should reflect the risks of a

[18] Verizon Incentive Plan Order, at p. 9. The NYPSC did not use GAAP depreciation lives in determining TELRIC rates, but did employ shorter depreciation lives than the FCC depreciation lives. See Appendix, pp. 18-19.

[19] NPRM at ¶ 82, citing Local Competition Order, 11 FCC Rcd at 15856, ¶ 702.

[20] Id.

competitive market.[21] The Commission held that TELRIC prices should reflect the risk of ILECs losing customers to competitors and should not be based on an unreasonably low cost of capital because it would discourage CLECs from investing in their own facilities. In the instant proceeding, the Commission asks parties to identify variables that determine the cost of capital and how to quantify components of risk that are reflected in the cost of capital.[22]

The NYDPS supports the Commission's conclusion that a TELRIC-based cost of capital should reflect the risks of a competitive market. This conclusion is also consistent with the Commission's determination that UNE pricing rules should more closely account for the real world attributes of the ILEC's network. While the Commission may provide guidance, state commissions should have the flexibility to account for a range of factors when assessing the risks of the competitive market. For example, if a state commission allows the use of GAAP depreciation lives, as compared to longer regulatory lives, the probability the ILEC will not recover the estimated TELRIC investment costs is less, and this lower risk should be considered when deciding the TELRIC-based cost of capital.

The NYPSC, after carefully considering the evidence on the record in the Second Network Element Proceeding and the Commission's rules, adopted a cost of capital of 10.5% as summarized in the following table:

	PERCENTAGE	COST	WEIGHTED COST
Debt	35%	7.3%	2.6%
Equity	65%	12.1%	7.9%
Total	100%		10.5%

[21] NPRM at ¶ 83, citing Triennial Review Order at ¶¶ 680-684.

[22] NPRM at ¶ 85.

The cost of capital adopted by the NYPSC to set UNE rates reflected the real world risks to Verizon as the market continues to evolve. The cost of capital should not be based on a "fantasy marketplace" where the provision of local phone service is as "competitive as the sale of detergent."[23] Specifically, the NYPSC increased the equity ratio from 55%, based on the average equity ratios of a proxy group of highly regulated ILECs, to 65% in recognition of the actual level of competition that had occurred in Verizon's marketplace. The 12.1% return on common equity (ROE) for Verizon was higher than the NYPSC permitted other New York ILECs because of the assumed higher risk due to increased competition. This contrasts with the ROE for New York's independent telephone companies which face little competition. The NYPSC authorized 9.13% for a company with 65% equity, which is approximately 25% less than the ROE permitted Verizon in the Second Network Elements Proceeding.

Therefore, the NYDPS agrees that a consistent set of assumptions should be used to set the appropriate cost of capital, which should reflect the real world risks, and not hypothetical risks, to the ILEC as the market continues to evolve towards facilities-based competition.

VI. Non-Recurring Charges Should be Based on a Consistent Network Construct

a. Recurring and Non-Recurring Charges:

Non-recurring charges (NRCs) recover the “installation” or “set-up” costs that an ILEC incurs in processing an order from a CLEC for a UNE.[24] The Commission asks what costs an ILEC should be permitted to recover for activities necessary to initiate service to a CLEC. The Commission states that consistency among the various component rates is important because

[23] Case 98-C-1357, Order, p. 80, citing Recommended Decision, pp. 76-77.

[24] NPRM at ¶ 114.

using one set of network assumptions for recurring charges and a different set for NRCs could potentially result in over-recovery or under-recovery.[25]

The NYDPS agrees with this conclusion. In approving Verizon's NRC rates, the NYPSC generally applied TELRIC's forward-looking, least cost principles in the same manner they were applied for developing Verizon's recurring UNE rates. As the NPRM states, such consistency is important because if there are different assumptions for different UNE rates, the mixed signals could result in under-recovery or over-recovery of forward-looking costs, which would be detrimental to the goal of encouraging facilities-based investment.

b. Operational Support System

An issue related to the recovery of costs is the relationship between NRCs for manual activities and an ILEC's operational support system (OSS).[26] The Commission seeks comment on what assumptions should be made with respect to the capability of the ILEC's OSS when setting NRC rates. Additionally, the Commission asks whether costs to develop and operate the OSS itself should be recovered through expense factors or different charges and, if a separate charge, how should it be calculated.[27]

State commissions should be permitted to assume additional productivity that would result from a more efficient OSS, if the OSS is found to be operating inefficiently, e.g., that there are an excessive number of CLEC orders that cannot be processed electronically and require more costly manual intervention, because TELRIC assumes the most efficient network. With respect to cost recovery, the NYPSC determined that Verizon's OSS costs should be recovered through separate charges that were calculated in the same manner as Verizon's other recurring

[25] NPRM at ¶ 117.

[26] NPRM at ¶ 118.

[27] Id.

and non-recurring UNE rates. This practice, which has not been challenged by any party, is consistent with the Commission's view that rates should recover costs in the manner in which they are incurred and by the cost causer rather than spread among all users.

c. Recovery of Costs

The Commission asks whether the costs that an ILEC incurs in processing an order from a CLEC should be recovered as a NRC or as a recurring charge.[28] Since most of the NRCs at issue are labor costs, the Commission suggests limiting recovery through NRCs to those costs that exclusively benefit the CLEC ordering the UNE.[29] The cost of activities for which NRCs are not permitted would be recovered in recurring charges through expense factors.

While this approach would likely reduce the number of activities for which NRCs would be permitted, the use of NRCs to recover one-time costs is consistent with the Commission's view that rates should recover costs in the manner in which they are incurred, and should be maintained. The suggestion that bill credits be issued for the NRCs that would be eliminated as a result of this rulemaking should be rejected. Not only would this be costly to implement, and be time consuming, but in our experience, it is not something the parties in the New York proceedings thought required a new approach.

d. Disconnection Costs

The Commission asks whether disconnection costs should be recovered as a separate cost at the time of disconnection or if they should be recovered through a NRC imposed at the time of installation.[30] The NYDPS supports recovery of disconnection costs through an NRC imposed at the time of installation because this practice, which appears to be consistent in New York and

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[28] NPRM at ¶ 120.

[29] Id.

[30] NPRM at ¶ 127

elsewhere for retail and wholesale service, recognizes the reality that it is difficult to recover costs once service is disconnected.[31] Verizon recovers the cost of disconnecting UNEs at the time of installation as a component of the applicable NRC, which considers the time value of money over the average period for which the CLEC is expected to use the UNE.

e. Loop Conditioning Costs

The Commission asks when and how loop conditioning costs should be recovered.[32] Consistent with our view that TELRIC costs should reflect real world attributes but should also reflect the most recent and efficient technology, the NYDPS agrees that loop conditioning costs should be recovered through NRCs, based upon the actual costs incurred by the ILEC for conditioning loops, using the assumption that they are conditioned in the most efficient manner given current technology and the location of the ILEC's wire centers. An ILEC should not be permitted to recover costs for removing items, e.g., load coils, when the item would not have been part of the loop under applicable design criteria. The Commission's proposal to allocate loop conditioning costs among present and future carriers that may provide DSL service over the conditioned loop would be administratively burdensome to calculate and implement. The Commission should permit the states, who are closest to the facts, to determine the appropriate rate design. In any event, states that have already acted, as we have done in New York, should be permitted to retain their current rate designs.

VII. State Commissions Should Have Flexibility to Determine When Rate Changes are Warranted

The Commission states that UNE price proceedings require a substantial commitment of resources from all involved parties.[33] The Commission queries whether there might be

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[31] Case 98-C-1357, RD at p. 185.

[32] NPRM at ¶ 130

[33] NPRM at ¶ 138.

mechanisms that would be used to adjust UNE prices over time, e.g., a national or state-specific productivity factor,[34] or whether states should have the ability to conduct a full UNE proceeding at their discretion.[35]

Markets will evolve differently throughout the country; therefore, state commissions ought to have the discretion to determine when it is appropriate to conduct a UNE pricing proceeding. A state commission may want to take into consideration whether conducting a new proceeding would promote or hinder stability in the market or whether it would result in unfairness to investors. Consistent with the Commission's conclusion that TELRIC should be based on real world attributes, the decision whether to undertake a new proceeding to reexamine UNE rates should be made by those regulators closer to the market. There is no reason to require states and the parties to bear significant costs when states, such as New York, have little incentive to allow significantly out-of-date UNE rates to continue without review.

VIII. State Commissions Should Determine Whether New TELRIC Proceedings are Required

The Commission seeks comments on how any changes to the UNE pricing rules should be implemented by the states and whether a national timetable ought to be established so that state commissions can reset rates in accordance with any new rules, e.g., should state proceedings be conducted within nine months.[36]

The NYDPS suggests that state commissions should determine whether its UNE prices are consistent with the Commission's rules and whether a new proceeding is imminently warranted. Requiring that all states conduct new proceedings within nine months fails to take into account different approaches, different resources, and different levels of competition.

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[34] NPRM at ¶ 139.

[35] NPRM at ¶ 140.

[36] NPRM at ¶¶ 149-150.

Moreover, states that are in substantial compliance with the new rules should be permitted to continue to use the existing UNE rates in order to maintain stability in the market place until a new review is warranted.

The Commission also asks whether a true-up mechanism ought to be established to account for the difference between the current UNE rates and rates that will result from changes in the rules.[37] We see no reason for such an approach. Not only would it be administratively burdensome to calculate and implement, it would bring uncertainty to the market until such time as the true-ups were satisfied. Moreover, in states such as New York where all UNE rates are permanent, there is no expectation that a true-up will occur.

Conclusion

In all the above reasons, the NYDPS supports the Commission's proposal to adopt a TELRIC methodology that accounts for the real world attributes of the ILEC's networks. The Commission should not mandate a particular approach, but should grant states the flexibility to evaluate the existing market conditions and to set UNE rates accordingly.

Respectfully submitted,

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[37] NPRM at ¶ 151.

APPENDIX

1. **Paragraphs 63-66[38] - Network Routing and Construction**

An overview of the cost studies considered and the basis for selecting the cost study adopted by the New York State Public Service Commission (NYPSC) in Verizon of New York's (Verizon) most recent UNE rate case (Case 98-C-1357, Module 3) is provided on pages 14-20 of the NYPSC's January 28, 2002 Order (Order). A more comprehensive description of the two cost studies is provided on pages 20-25 of the corresponding Recommended Decision (RD) of Administrative Law Judge Joel A. Linsider, issued on May 16, 2001. The table below indicates where specific cost studies and the related issues are generally described.

Item	RD Pg(s)	Order Pg(s)
Switching	123-124	20
Loops	80-92	87-95
DSL: Compatible Loops	150-153	128-129
Interoffice Transport	144-145	122
Nonrecurring Charges	175-177	139-141

2. **Paragraphs 67-70 - Technology**

A summary of the discussion pertaining to the costs of an optimally designed network can be found in the section on Network Annual Cost Factors on pages 46-50 of the RD and pages 66-69 of the Order.

3. **Paragraphs 71-72 - Structure Sharing**

Verizon proposed treatment in Case 98-C-1357, which was not opposed and was adopted by the RD and the Order, was described on page of 153 of Verizon's February 7, 2000 Panel Testimony as follows: "In determining structure investment, the Company's study took account of the fact that some poles are jointly owned with other utility companies. Only that portion of the structure investment owned by Verizon was considered in the study. Moreover, any revenues received by Verizon for pole attachments and conduit rentals were offset against the Annual Cost Factors for pole and conduit maintenance."

4. **Paragraphs 73-75 - Fill Factors**

The discussion relating to fill factors is found on the following pages.

Issue	RD Pg(s)	Order Pg(s)
Loops	92-100	98-105
House & Riser Cable	119-121	116-118
Dedicated Transport	147-148	125-127

5. **Paragraphs 76-81 - Switch Discounts**

The discussion pertaining to the level of discounts for switch investment costs can be found at pages 123-143 of the RD and pages 34-46 of the Order.

[38] Refers to the paragraphs in the NPRM containing the questions we are responding to.

6. **Paragraphs 82-91 - Cost of Capital**

A discussion of the cost of capital input used to set Verizon's current UNE rates is provided on pages 66-80 of the RD and pages 79-87 of the Order.

7. **Paragraphs 92-108 - Depreciation Expense**

Discussion related to the depreciation lives used to set Verizon's UNE rates can be found on pages 62-66 of the RD and pages 76-78 of the Order. All of the cost models considered by the NYPSC utilized the levelization method described in the NPRM at ¶106. The levelization method adopted considered the time value of money impact of recovering the plant's investment cost over the life of the plant via depreciation expense.

8. **Paragraphs 109-113 - Expense Factors**

The forward-looking productivity adjustments made to actual expenses is discussed on pages 53-56 of the Order and pages 37-40 of the RD. See also the "forward-looking to cost adjustment" (FLC), discussed on pages 56-61 of the Order and pages 49-55 of the RD.

The specific issues that arose in connection with estimating non-plant expenses, such as customer care or common overhead can be found on the following pages.

Issue	RD Pg(s)	Order Pg(s)
Removal of Retail Avoided Costs	44-45	62-63
Other Support	50-51	---
Wholesale Marketing	51-54	69-70
<u>Common Overhead</u>		
Common Overhead Expenses	55-56	71
Special Pension Enhancement	56-60	72-75
Merger Savings	60-61	75-76

See also the discussion pertaining to loading costs allocated based on revenue. See RD, pages 45-46 and Order, page 65.

9. **Paragraphs 114-130 - Non-Recurring Charges (NRCs)**

The discussion pertaining to the capability of Verizon's Operational Support Systems (OSS) are described in pages 182-184 of the RD and pages 141-143 of the Order. The NYPSC Order on Rehearing is enclosed.

With respect to disconnection charges, the NYPSC determined to include these charges in the installation NRC. This discussion is on page 185 of the RD.

The cost studies used to set Verizon's rates for DSL capable loops are generally described on pages 150-153 of the RD and pages 128-129 of the Order. Verizon's rates for loop conditioning NRCs are specifically discussed on pages 186-189 of the RD and pages 143-145 of the Order.

10. **Paragraphs 147-148 - Interconnection Pricing and Reciprocal Compensation**

Verizon's reciprocal compensation rates are based on the UNE rates approved by the NYPSC. See pages 189-198 of the RD and pages 160-161 of the Order.